

# Report of the auditor-general to Limpopo Provincial Legislature and Council of Musina Local Municipality.

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Musina Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Musina Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA) and the Division of Revenue Act, 2018 (Act No. 1 of 2018).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality identified indicators of impairment on its infrastructure assets and performed impairment assessment on its infrastructure assets at the reporting date. This assessment was not in accordance with GRAP 21, *Impairment of non-cash generating asset*. The method used was inappropriate as the municipality determined the restoration cost and not the recoverable amount of the affected assets at the reporting date. I was unable to obtain sufficient and appropriate audit evidence to confirm the infrastructure assets by alternative means. As a result, I was unable to determine whether any adjustments were necessary to property, plant and equipment and impairment loss stated at R319 916 709 (2018: R331 842 924) and R3 186 233 (2018: R1 599 981) respectively.

#### Receivables from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for the accounts receivable from non - exchange transactions, due to the status of the accounting records. The municipality did not maintain reliable record of transactions for this account balance. I was unable to confirm the receivable balances by alternative means. Furthermore, the municipality did not assess the carrying amount of the receivable for impairment in accordance with GRAP 104, *Financial instruments*. As a consequence, I was unable to determine whether any adjustment was necessary to accounts receivable from non-exchange balance stated at R203 925 500 (2018: R168 807 177 ) in the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivable from non- exchange transaction for the current period.

## Payables from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for the accounts payable from non-exchange transactions, due to the status of the accounting records. The municipality did not maintain reliable record of transactions for this account balance. I was unable to confirm these balances by alternative means. I was unable to determine whether any adjustment was necessary to accounts payables from non - exchange transactions stated at R249 802 664 (2018: R210 492 674) in the financial statements. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the payables from non-exchange transaction for the current period.

## Context for the opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
8. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern/ financial sustainability

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.
11. I draw attention to note 54 to the financial statements, which indicates that the municipality incurred a net loss of R45 549 006 (2018: R63 752 172) during the year ended 30 June 2019, and as of that date the municipality's current liabilities exceeded its current assets by R261 915 937 (2018: R223 657 774). As stated in note 54, these events or conditions, along with the other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

13. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.



### Material impairments – accounts receivable

14. As disclosed in notes 3 and 4 to the financial statements, material impairments amounting to R10 943 784 (2018: R8 273 186) for exchange transactions and R28 706 376 (2018: R23 889 674) for non-exchange transactions were raised as a result of irrecoverable trade receivables.

### Other matters

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### Unaudited disclosure notes

17. In terms of section 125 (2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### Responsibilities of the accounting officer for the financial statements

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
19. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### Auditor-general's responsibilities for the audit of the financial statements

20. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Introduction and scope

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in the annual performance report
KPA 1: Basic service delivery	71 – 72
KPA 5: Local economic development	81 – 82

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### KPA 1: Basic service delivery

#### Various Indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to an inadequate technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine



whether any adjustments were required to the reported achievements. In addition, these indicators did not relate to the strategic objective, which they aimed to achieve.

Indicator description	Strategic objective	Reported achievement
Routine road maintenance to surfaced roads	To initiate and improve the quantity and quality of municipal infrastructure	182m <sup>2</sup>
Number of kilometres of internal gravel streets maintained in Musina	To initiate and improve the quantity and quality of municipal infrastructure	208.9 km or machine hrs
Kilometres of storm water Maintained and upgraded	To initiate and improve the quantity and quality of municipal infrastructure	1,63km
Percentage of clean, maintain and reconstruction of hydraulic structures	To initiate and improve the quantity and quality of municipal infrastructure	77%

#### KPA 5: Local economic development

28. I did not raise any material findings on the usefulness and reliability of the reported performance information for KPA 5: Local economic development.

#### Other matters

29. I draw attention to the matter below.

#### Achievement of planned targets

30. Refer to the annual performance report on pages 71, 72, 81 and 82 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 27 to 31 of this report.

### Report on the audit of compliance with legislation

#### Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings on compliance with specific matters in key legislations are as follows:

#### Annual financial statements, performance and annual reports

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

- 34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
- 35. Reasonable steps were not taken to prevent irregular expenditure amounting to R11 539 759 as disclosed in note 39.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviations from the procurement processes.
- 36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R6 641 456 as disclosed in note 39.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused due to interest on late payments.

### **Procurement and contract management**

- 37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by Supply Chain Management (SCM) regulation 17(a) and (c).

### **Conditional grant**

- 38. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant and Integrated National Electrification Programme was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.

### **Consequences management**

- 39. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

### **Strategic planning and performance management**

- 40. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted managed, as required by municipal planning and performance management regulation 7(1).

### **Other information**

- 41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the the audit committee's report. The other information does not include the financial statements, the auditor's report and those





selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.

42. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
43. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

45. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
46. The accounting officer failed to develop oversight and monitoring measures to improve the cash flows of the municipality. Leadership should ensure that adequate cash management processes are implemented to prevent liquidity challenges.
47. Senior management did not adequately oversee the operations of the municipality, as the financial statements submitted for audit contained material misstatements and material findings have been identified in the annual performance report and on compliance with laws and regulations.
48. The municipality's reactive approach in addressing inadequate systems of internal control indicates that mitigating processes are not effective. The council and audit committee should ensure that adequate risk identification strategies are developed.
49. The municipality developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner as repeat misstatements were identified during the audit.

*AUDITOR GENERAL*

Polokwane

05 December 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure – Auditor-general's responsibility for the audit<sup>1</sup>**

- 1 As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

- 2 In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Musina Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

### **Communication with those charged with governance**

- 3 I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- 4 I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.